

Message Text

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INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01

DODE-00 PM-03 H-02 L-02 PA-02 PRS-01 USIA-15 /113 W

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R 251719Z APR 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9655

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WK ENDING APRIL 24)

REF: BONN A-151

1. BUNDESBANK ANNUAL REPORT: IN THE JUST PUBLISHED ANNUAL REPORT REVIEWING ALL ASPECTS OF DOMESTIC AND INTERNATIONAL MONETARY DEVELOPMENTS, THE BUNDESBANK INTER ALIA MAKES THE FOLLOWING POINTS: (A) GERMAN FOREIGN EXCHANGE RESERVES ARE NOT EXCESSIVE, PARTICULARLY IF ONE TAKES INTO ACCOUNT THE APPROXIMATELY DM 60 BILLION OF SHORT-TERM FOREIGN INDEBTEDNESS OF GERMAN
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BUSINESS, BANKS AND PUBLIC BODIES AS WELL AS THE FACT

THAT PART OF THE RESERVES ARE COMMITTED FOR A LONGER TERM (LOANS TO ITALY, US OFFSET, EC CREDIT LINES, ETC.) AND THE GOLD IN THE RESERVES IS FOR ALL PRACTICAL PURPOSES IMMOBILIZED.

(B) A QUICK REDUCTION OF DEFICITS IS MORE IMPORTANT FOR THE INTERNATIONAL MONETARY SYSTEM THAN A FRICTIONLESS RECYCLING OF OIL DOLLARS.

(C) THE BEST TYPE OF RECYCLING CONSISTS OF PROVIDING THE ARABS WITH LONG-TERM INVESTMENT POSSIBILITIES THROUGH INTERNATIONAL ORGANIZATIONS WHO IN TURN RECYCLE THE MONEY TO DEFICIT COUNTRIES ON THE CONDITION THAT THESE COUNTRIES CONDUCT APPROPRIATE ECONOMIC POLICIES. THE OECD SAFETY NET FUND DOES NOT FULLY MEET THESE IDEAL CRITERIA BECAUSE IT FAILS TO DIRECTLY STERILIZE THE ARAB FUNDS IN LONG-TERM INVESTMENTS.

(D) THE QUESTION OF AN ADDITIONAL SDR CREATION DOES NOT ARISE FOR THE TIME BEING SINCE THERE IS A GLUT OF INTERNATIONAL LIQUIDITY.

(E) INTERNATIONAL MONETARY REFORM FOR THE TIME BEING MUST TAKE THE FORM OF GRADUAL AD HOC REVISIONS. THERE IS NO CHANCE IN THE FORESEEABLE FUTURE FOR A RETURN TO FIXED PARITIES.

(F) BUNDESBANK FOREIGN EXCHANGE MARKET INTERVENTION IS DESIGNED ONLY TO PRESERVE ORDERLY MARKETS, BUT TO DO SO NOT ONLY ON A DAY BY DAY BASIS BUT ALSO TO SMOOTH OUT EXCHANGE RATE CHANGES OVER LONGER PERIODS.

(G) A SWISS ASSOCIATION WITH THE LITTLE SNAKE WOULD USEFULLY BROADEN THE ZONE OF EXCHANGE RATE STABILITY IN EUROPE.

2. INSURANCE FOR BANK DEPOSITS: THE FINANCE MINISTRY AND THE ASSOCIATION OF GERMAN COMMERCIAL BANKS HAVE REACHED AGREEMENT ON THE PRINCIPLES OF AN INSURANCE FOR DEPOSITS HELD WITH GERMAN PRIVATE BANKS. ACCORDING TO PRESS REPORTS MAJOR PROVISIONS OF THE AGREEMENT ARE AS FOLLOWS: A) COMMERCIAL BANKS PARTICIPATING IN THE INSURANCE SCHEME WILL PAY ANNUALLY 0.03 PERCENT OF THEIR LIABILITIES AGAINST NON-BANKS INTO A COMMON UNCLASSIFIED

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FUND. SUCH PAYMENTS ARE ESTIMATED TO REACH ABOUT DM 50 MILLION PER YEAR. B) UNDER THE SCHEME ANY NON-BANK DEPOSIT IN A VOLUME OF UP TO 30 PERCENT OF THE CAPITAL STOCK OF THE BANK CONCERNED IS FULLY INSURED. IT IS NOT YET FULLY CLEAR WHETHER THE PARTICIPATION OF BANKS IN THE SCHEME WILL BE COMPULSORY OR VOLUNTARY SINCE GOVERNMENT LAWYERS HAVE NOT YET RESOLVED CONSTITUTIONAL OBJECTIONS TO COMPULSORY

MEMBERSHIP. OTHER GERMAN BANKING ASSOCIATIONS (SAVINGS BANKS, LAND BANKS, COOPERATIVES, ETC.) HAVE THEIR OWN SCHEMES WHICH DE FACTO GUARANTY ALL DEPOSITS.

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INFO AMEMBASSY BERN

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3. REDUCTION IN INTEREST RATES ON SAVINGS DEPOSITS:
THE CENTRAL ASSOCIATIONS OF GERMAN BANKS HAVE
RECOMMENDED TO THEIR MEMBER BANKS TO REDUCE THE INTEREST
RATE FOR SAVINGS DEPOSITS WITH LEGAL PERIOD OF NOTICE
(ONE MONTH) FROM 5 TO 4 1/2 PERCENT, AND TO ADJUST
ACCORDINGLY INTEREST RATES FOR SAVINGS DEPOSITS WITH
LONGER MATURITY.

4. FOREIGN EXCHANGE MARKET: THE DOLLAR WEAKENED ON GERMAN FOREIGN EXCHANGE MARKETS. THE GERMAN FINANCIAL PRESS ATTRIBUTED THE WEAKENING LARGELY TO THE TIGHTENING OF THE GERMAN MONEY MARKET (SEE NEXT PARAGRAPH).
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GRAPH). DURING THE REPORTING WEEK SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

		FORWARD DOLRS (DISCOUNTS IN PCT.P.A.)	
SPOT DOLLARS		ONE-MONTH	THREE-MONTH
APR 18	DM 2.3795	-2.3	-3.8
21	2.3877	-1.3	-2.0
22	2.3830	-1.5	-2.2
23	2.3727	-1.5	-2.4
24	2.3685	-1.5	-2.4

WITHIN THE JOINT FLOAT THE DEUTSCHEMARK REMAINED THE WEAKEST CURRENCY. MOST OF THE WEEK BELGIAN FRANCS AND SWEDISH CROWNS WERE AT OR NEAR THEIR UPPER INTERVENTION POINTS, AND THE BUNDESBANK INTERVENED WITH SALES OF SUCH CURRENCIES.

5. MONEY MARKET: THE GERMAN MONEY MARKET CONTINUED TO TIGHTEN. ALL MONEY RATES ARE NOW AT OR ABOVE THE 5 PERCENT REDISCOUNT RATE. A FACTOR CONTRIBUTING TO THE TIGHTENING MAY HAVE BEEN THE SALES OF FOREIGN EXCHANGE BY THE BUNDESBANK (SEE PREVIOUS PARAGRAPH). DURING THE REPORTING WEEK THE FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY		ONE-MONTH MONEY	THREE-MONTH MONEY
APR 18	5.0-5.3	4.3-4.5	4.7- 4.8
21	6.3-6.6	4.6-4.9	4.7-5.0
22	6.3-6.6	4.6-4.9	4.7-5.0
23	6.3-6.5	4.8-5.1	5.2-5.4
24	6.4-6.5	4.8-5.1	4.8-5.0

6. MONETARY RESERVES: IN THE SECOND WEEK OF APRIL THE NET FOREIGN POSITION OF THE BUNDESBANK DECLINED BY DM 1.1 BILLION TO DM 84.8 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE FELL BY DM 673 MILLION WHILE GROSS LIABILITIES INCREASED BY ABOUT DM 430 MILLION. NOTE: IN ITS BALANCE SHEET AS OF APRIL 15, 1975, THE BUNDESBANK
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BANK ADJUSTED ITS DEFINITION OF MONETARY RESERVES TO
THE (REVISED) DEFINITION OF SUCH RESERVES AS USED IN
BALANCE OF PAYMENTS STATISTICS (SEE BONN A-151).

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7. BANK LIQUIDITY: IN THE SECOND WEEK OF APRIL BANK
LIQUIDITY INCREASED BY DM 1.2 BILLION. MAJOR FACTORS
INCREASING LIQUIDITY WERE DECLINES IN OFFICIAL NET

ASSETS HELD AT THE BUNDESBANK (DM 1.5 BILLION) AND IN CURRENCY IN CIRCULATION (DM 0.9 BILLION). OTHER FACTORS, NET, INCREASED LIQUIDITY BY DM 0.5 BILLION. LIQUIDITY WAS REDUCED BY THE ABOVE-MENTIONED DECLINE IN BUNDESBANK MONETARY RESERVES AND BY A DM 0.6 BILLION INCREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK. THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE FURTHER THEIR REDISCOUNT BORROWINGS.

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8. BOND MARKET: DURING THE REPORTING WEEK THE FAZ AVERAGE YIELDS TO MATURITY OF OUTSTANDING DOMESTIC BONDS DEVELOPED AS FOLLOWS:

8 PERCENT 7 PERCENT 6 PERCENT

APR 18	8.87	9.00	8.57
21	8.89	8.99	8.52
22	8.90	8.99	8.52
23	8.90	8.99	8.49
24	8.89	8.98	8.48

ON APRIL 23 THE CITY OF BERLIN OFFERED A DM 200 MILLION LOAN WHICH IS GUARANTEED BY THE FEDERAL GOVERNMENT. THE LOAN CARRIED THE SAME CONDITIONS AS THE LAST FEDERAL LOAN AND THE LOAN OF THE CITY OF BREMEN (COUPON 8 1/2 PERCENT, ISSUE PRICE 98 1/2, MATURITY 8 YEARS NON-CALLABLE, YIELD TO MATURITY 8.77 PERCENT). ON APRIL 11 THE THYSSEN CARIBBEAN FINANCE PLACED PRIVATELY A DM 50 MILLION LOAN (COUPON 8 1/2 PERCENT, ISSUE PRICE 99 1/2, YIELD TO MATURITY 8.6 PERCENT). ON APRIL 24 THE DM 100 MILLION LOAN OF THE CITY OF STOCKHOLM WAS OFFERED (COUPON 8 3/4 PERCENT, ISSUE PRICE 99, AVERAGE MATURITY 5.6 YEARS).
HILLENBRAND

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